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The Greek Housing Issue: Housing and Price Indicators VS Macroeconomic Indicators

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Abstract

In Greece, housing has always been an important indicator of the economy as homeownership rates remained over 75% for many years. Construction activity increased by 11% during 1991-2000, which in combination with easy and generous loans by banks, increased demand and property values significantly. In the aftermath of the financial crisis, property values remained unjustifiably at high levels for the first 2-3 years into the recession. This stability was followed by a sharp decrease in values reaching a 15-year low. This fact is documented through macroeconomic and housing indices, such as GDP, labour, building permits, house price and money indices. This paper aims at shedding some light on the existing relationship between housing activity and macroeconomic factors. To this objective, building permits, house price, CPI housing and home ownership indexes spanning from the beginning of the recession in 2008 up to date were gathered and analyzed. The results show an interesting intercorrelation between building permits and certain macroeconomic indicators, whilst all other housing indices appear with different behavior towards each macroeconomic factor during the period of study.

Keywords: macroeconomic indicators; housing indicators; price indicators; Greece

1. Introduction

The Greek real estate market collapsed since 2010 mainly due to the sharp drop of the GDP per capita, the increase of taxation and the subsequent drop of bank lending for residential housing. Despite the fact that for the first 2-3 years of the recession property values remained unjustifiably at high levels, eventually macroeconomic changes dragged investments and values down. In Greece, housing has always been an important indicator of the economy as homeownership rates remained over 75% for many years. It is indicative that the Greek crisis has led more than 8.2% of the GDP (approximately 18 billion €) to “extinction” between 2008-2015. According to the Hellenic Statistical Authority and the European Mortgage Federation, transactions documented a sharp drop up to 72% during the same period. Meanwhile, the opposite fact appeared in property taxation, which increase almost 6 times at a smaller period of time (2010-2015).

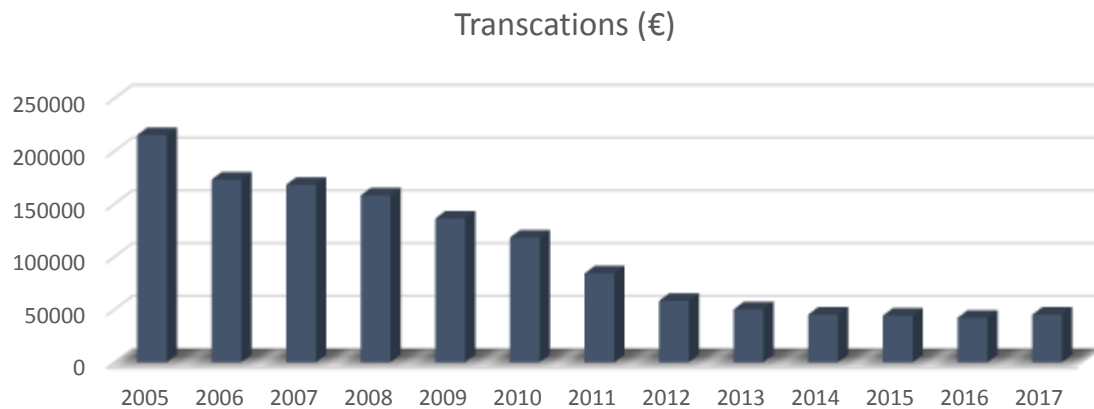


Figure 1, Real estate transactions measured in euro during 2005-2017 (Hellenic Statistical Authority, 2018; Eurostat, 2018)

The Greek real estate market cycle is currently at the point of oversupply. However, this oversupply does not come with the subsequent “value for money” properties. Properties in areas with high demand have dropped their values but not at such extent as the mean drop in values (approximately 40%) due to the demand. Moreover, preferences have sifted between areas mainly due to mortgages. During the economic upturn, traditionally expensive areas attracted people with lower income who were able to get and pay off a mortgage to acquire a property. However, when the crisis impacted wages and increase unemployment, households were unable to pay off their mortgages resulting in an oversupply of -mainly- residential properties (Cerutti et al., 2017). Moreover, industrial and commercial properties hot the market for the same reason. As mentioned above, the situation grew even worse due to the excessive taxation, which has resulted to seem as a form of punishment for any kind of ownership (Hellenic Statistical Authority, 2018; European Mortgage Federation, 2018).



Figure 2, Property tax measured in euro during 2008-2015 (Hellenic Statistical Authority, 2018; Eurostat, 2018)

This paper aims at shedding some light on the existing relationship between housing activity and macroeconomic factors. To this objective, building permits, house price, CPI housing and home ownership indexes spanning from the beginning of the recession in 2008 up to date were gathered and analyzed in scope of highlighting any conclusions which could lead to future effective measures towards a real estate renewal.

2. Housing and price indicators VS macroeconomic indices

2.1. Greece through basic macroeconomic indicators

Greece has entered a long recession period since 2008-2009, after a period of high GDP ratios, with the highest (\$30872.4) documented in 2008. The Summer Olympic Games in Athens in 2004 triggered a period of upturn in combination with the constant increase arrivals of tourists. Unfortunately, the growth rate began a continuous unstoppable drop from 2008 until 2013, when small fluctuations begun. These fluctuations mainly appeared around the summer period due to the increase of incoming capital from tourists and the subsequent increase in seasonal job positions. From 2014 up to date, the growth rate has remained almost at the same level (mean value) with increases during the summer period (May-September) and significant decline during the winter period (November-February). As far as the growth rate of investment is concerned, after the crisis began (2008-2009), the lowest rate was observed in 2012 at -28.66 %, in the year of the second bail-out. These low levels are also documented in the lowest overall growth rate in 2012.

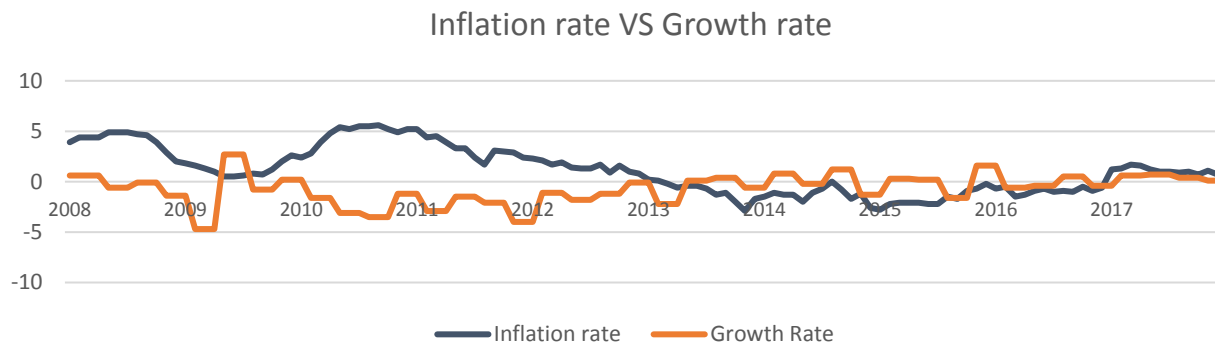


Figure 3, Inflation rate VS Growth rate in Greece (Hellenic Statistical Authority, 2018; Eurostat, 2018)

Analyzing inflation in combination with the growth rate it is clear that during the initial years of the crisis, inflation rose rapidly causing consumer prices to rise gradually. According to the Hellenic Statistical Authority, nationwide inflation rose in 2017 surpassing growth rate in contrast with the last 3 years. After 2013, inflation dropped in general and remained decreased until the end of 2015. The slight change in the economic activity in specific sectors, such as the real estate sector, created a false feeling of general economic growth which gradually caused inflation to grow. However, it must be mentioned that inflation was lower than the EU average until the beginning of 2016, but in combination with the decreased income of households, rates continued to seem very high.

One of the most important factors of an economy's stability and strength is the employment and unemployment rate. From 2004 the unemployment rate declined from approximately 11% to the lowest rate of 7.8% in 2008.

However, due to the economic crisis the austerity measures and the subsequent operational seizure of a large number of small/small-medium businesses, unemployment began a rapid increase until 2014. It is indicative that the rate in 2013 reached 27.5%, which was the highest of the 10-year period and of the EU. According the recent analysis in March 2018, the unemployment rate slightly dropped to 20.6%. The economic crisis has no preferences in gender. It is a fact that until 2008, male unemployment was smaller than female unemployment. However, during all years of recession, unemployment started to become common in both genders, as mainly economic factors are those playing significant role. Employment rate moves in accordance with the unemployment rate.

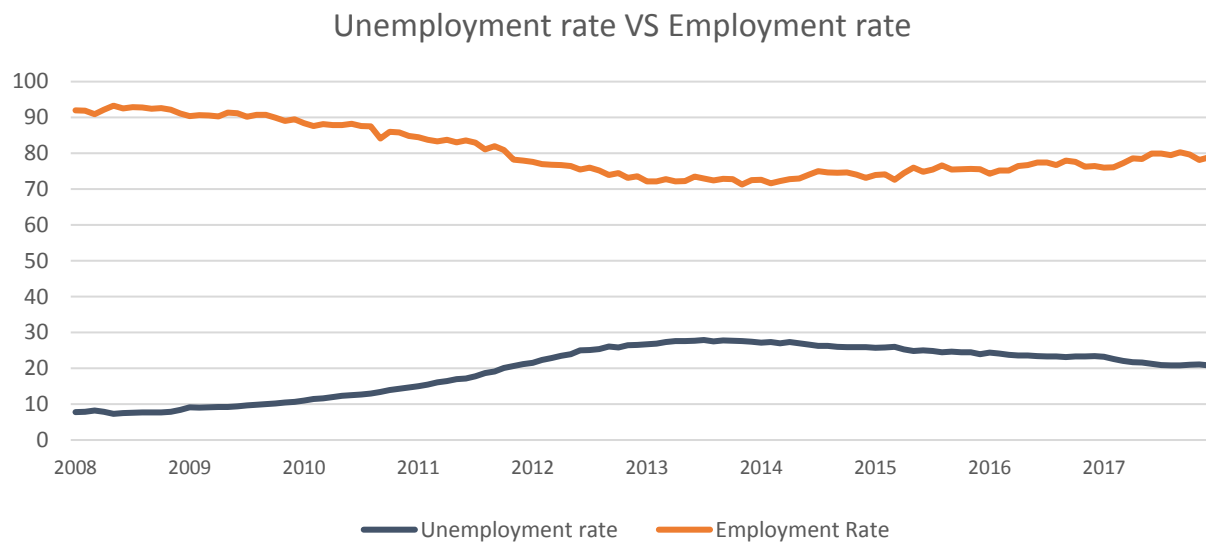


Figure 4, Unemployment rate VS Employment rate in Greece (Hellenic Statistical Authority, 2018; Eurostat, 2018)

Interest rates have documented a decrease from 2008. After a sharp decline until the first half of 2009, interest rates remained constant until 2011. In the year of the second bail-out, interest rates slightly increased. However, this increase was followed by a new decline and was finally stabilized in 2015. As saving deposits interest rate has become almost zero, many Greek citizens chose to save their money outside banks, creating accounts abroad through someone who works or studies abroad or saving them at home. At this point, it was clear that many mortgages could not be paid of due to the fact that their “owners” income had decreased rapidly, while banks had lost huge amount of their capital. This interaction created a very unsteady economic environment especially for the viability of banks (Ozturk and Sozdemir, 2015).

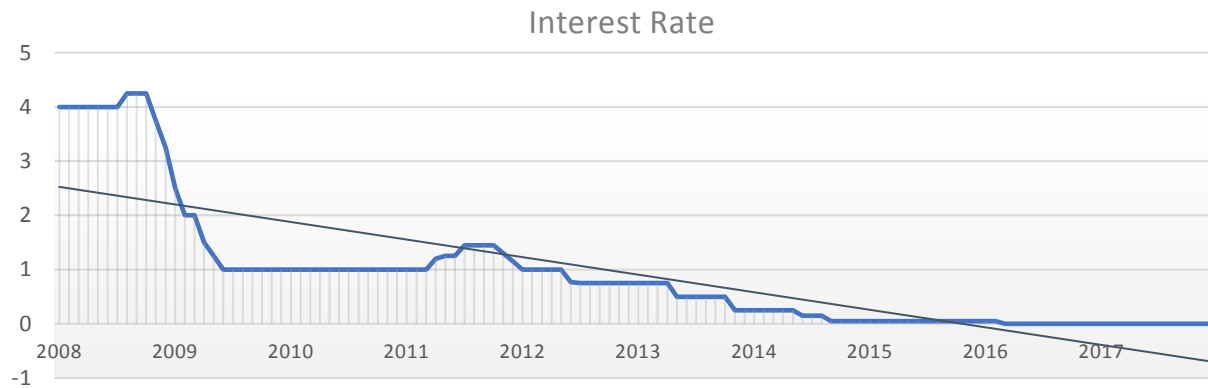


Figure 5, Saving deposits interest rate in Greece (Bank of Greece, 2018; Eurostat, 2018)

Greece has always been a touristic country with beautiful places for all kinds of tourism. The country's GDP rests on tourism at a great extent, especially when observing a steady increase in arrivals. According to the World Travel & Tourism Council, the direct contribution of Travel & Tourism to GDP was 13.2bn € in 2017, 7.5% of total GDP in 2016 and is forecast to rise by 4.5% pa, from 2017-2027, 9.6% of total GDP in 2027. The total contribution of Travel & Tourism to GDP was 32.8bn €, 18.6% of GDP in 2016, and is forecast to rise up to 23.8% of GDP in 2027 (World Travel & Tourism Council, 2017).

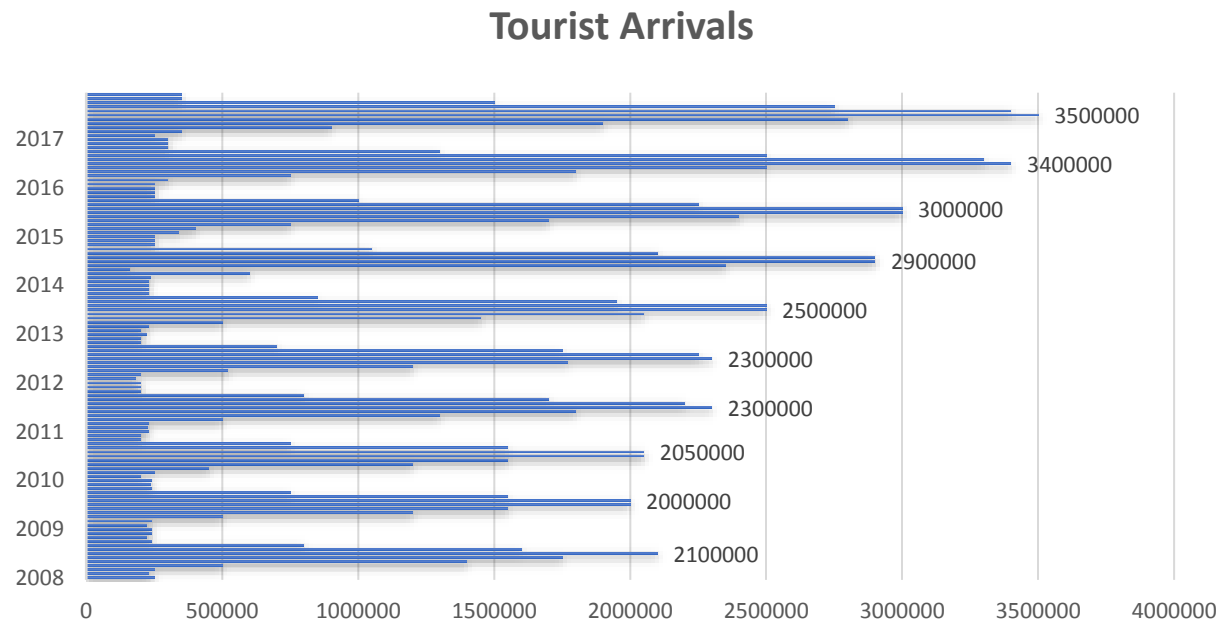


Figure 6, Tourist arrivals in Greece (2008-2017) (Hellenic Statistical Authority, 2018; Eurostat, 2018)

2.2. Housing indices during the economic crisis

Due to the fact that home ownership held high percentages, the construction activity in Greece was very active especially between 2003-2008. The Olympic games in 2004 triggered an increase in constructions, which is easily identified by the number (~ 200.000 properties) of constructed residential properties in 2005. In 2013, construction activity of residential housing decreased up to 94% in many areas. Meanwhile, building permits dropped 281% in 2013, 18.2% in 2014, 0.6% in 2015 and 5.3% in 2016. It is indicative that in 2014 the number of issued permits proved almost no construction activity in general.

Despite the decline, there is an excess of housing supply which, according to the European Mortgage Federation, is caused by the large increase of unemployment, the fall in households' disposable income, the taxes and, in general, the crisis impact. In combination with bank illiquidity, the real estate sector has suffered great negative changes (Mavridis and Vatalis, 2015). Fortunately, due to the increase demand for high level properties and the small number of such properties (despite the excess overall supply), construction activity is rising again. Property transactions and construction activity are rising but cannot reach the levels of 2005 or even of 2008. It is interesting to mention that building permits in Athens have slightly increased in 2017, when overall permits have also documented the same trend.

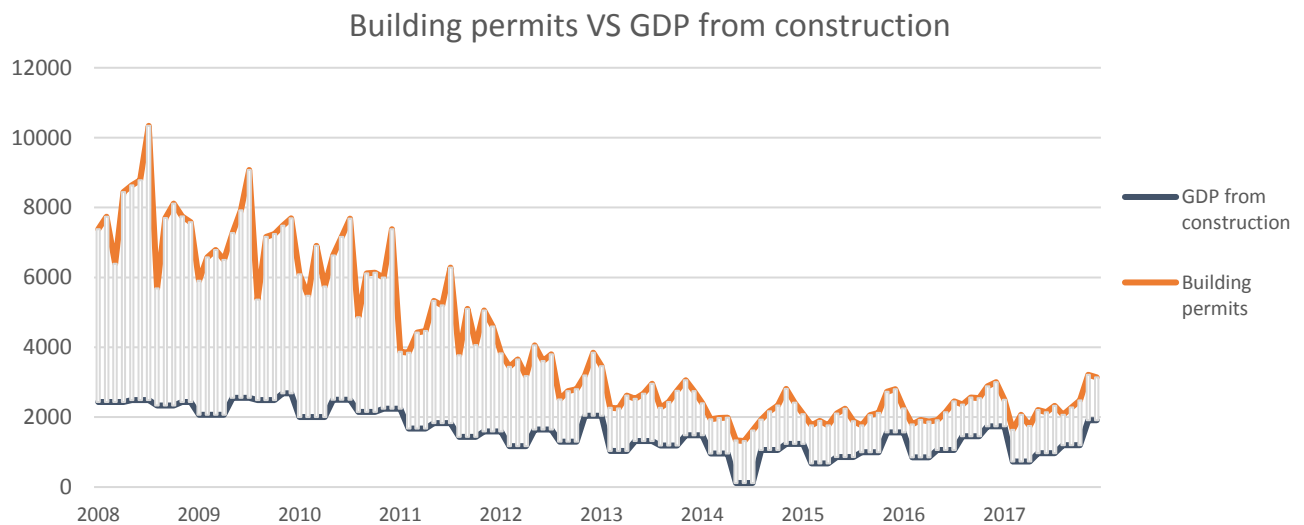


Figure 7, Building permits VS GDP from construction in Greece (Hellenic Statistical Authority, 2018; Eurostat, 2018)

The consumer price index (CPI) measures changes in the price level of the basket with consumer goods and services purchased by households. In the case of CPI housing, there has been an increase during 2013-2014 which can be explained by the decrease in real estate values making property acquisition more accessible. After severe changes in household income, the ability of households to "fill" their basket with real estate products stays stable from 2015.

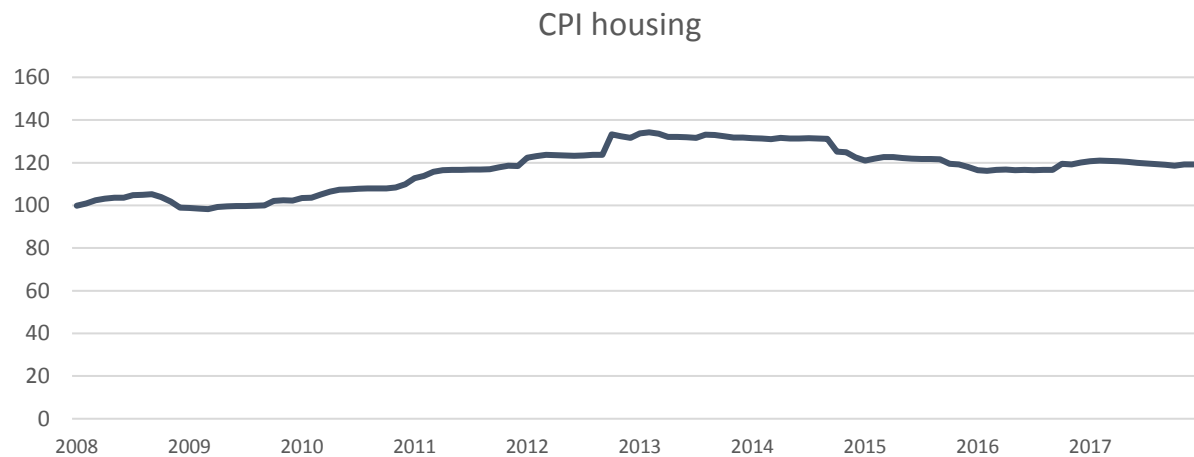


Figure 8, CPI housing of Greeks (2008-2017) (Hellenic Statistical Authority, 2018; Eurostat, 2018)

It is more that clear that Greek housing regimes, as home ownership, will change at least for a decade from now. Despite the fact that the notion of home ownership remains strong, a more liberal house regime is more that present. Bank financing for house acquisition in combination with the impact of the economic crisis on wages, employment and, in general, access to money create inequalities as far as home ownership is concerned. The decline in home ownership mainly after 2014 is a result of both the inability to acquire a house and the inability of paying off a mortgage. Owners decide to sell their property, which, on the other hand, cannot be sold easily due to the mentioned reasons. Nevertheless, Figure 9 proves that home ownership remains one of the most important forms of property in Greece, as during a decade the rate has dropped only from 76.7% to 73.8%.

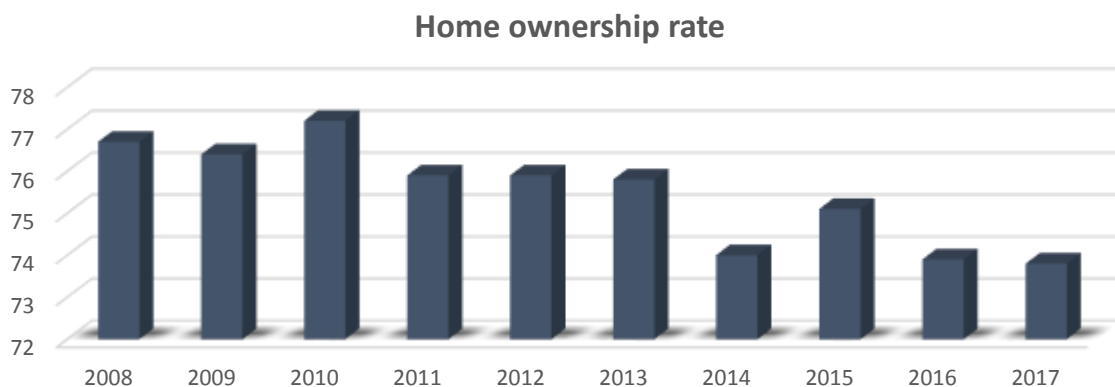


Figure 9, Home ownership rate in Greece (Hellenic Statistical Authority, 2018; Eurostat, 2018; Bank of Greece, 2018)

According to the bank of Greece, housing prices fell only 1% in 2017, when in 2016 the decrease reached 2.4%. During the end of 2017, values fell only 0.3% for new (up to 5 years old) and old properties. The decrease between

2016-2017 reached 0.8% for new apartments, when the decrease between 2015-2016 was tripled. As far as old properties are concerned, the decrease remains low. In 2016, the percentage reached 2% and in 2017, the rate dropped to 1.1%. When analyzing price indexes by age and geographical area, the analysis shows that apartment values in the fourth quarter of 2017 compared to the corresponding quarter of 2016 were marginally reduced by 0.1% in Athens, 0.6% in Thessaloniki and 0.4% in other major cities and other areas of the country. Finally, for all the urban areas, in the fourth quarter of 2017 values fell by 0.3% compared to the fourth quarter of 2016, while for the year 2017 the average annual decrease was 1.0%.

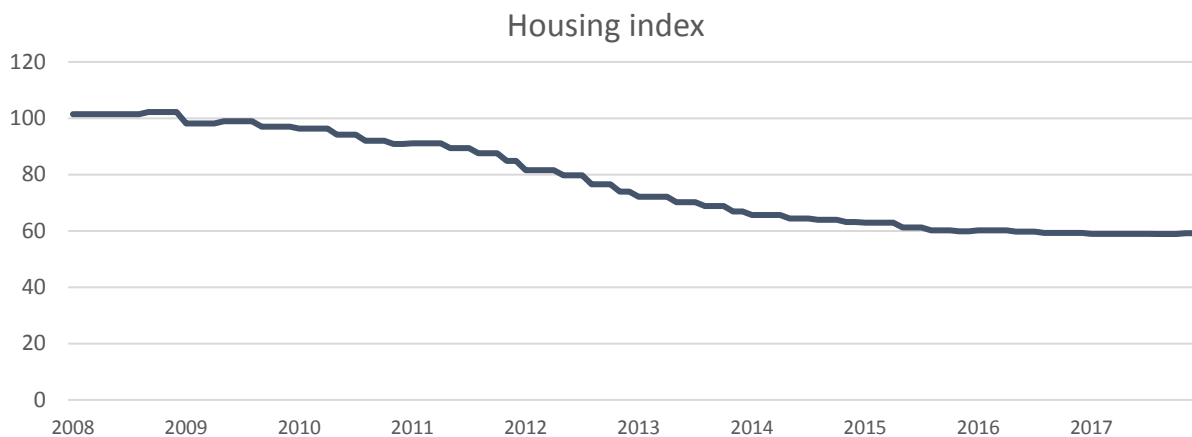


Figure 10, Housing index in Greece during the crisis (Hellenic Statistical Authority, 2018; Eurostat, 2018; Bank of Greece, 2018)

The small percentages of decline in the housing index indicate that after the first sharp drop during the three-year period of 2011-2014, values reached a balance point where most of the “players” of the real estate sector are satisfied. After the Olympic games in 2004, property values increased rapidly and unjustifiably, which in combination the increase bank liquidity of mortgage lending, sustained values to a high level. The economic crisis caused values to reach more sustainable and real based values, but, unfortunately, brought the real estate sector at a severely damaged point.

3. Conclusions

The difficulty in stabilization and reformation of the real estate sector can be attributed mainly to the economic crisis, the capital controls and the illiquidity, the unemployment, the decrease in wages and the increased property taxes. The only type of properties that have been active are the income generating properties of high standards.

Specifically, residential properties are characterized by oversupply and low rates of transactions. The commercial and industrial properties are characterized by low investment interest and frequent negotiation of rental values. On the other hand, touristic properties have remained the dynamic part of Greek the real estate sector. A large number of investments have been completed in Athens and many islands (Kos, Mykonos, Corfu etc.), which target the reopening or refurbishment of old 4* and 5* hotels.

To conclude, values are estimated to decrease at a very small extent and in some cases to remain the same despite of the type of property. The successful evaluation, the enhancement of development prospects and the exploitation of public property can all lead to a slow but steady stabilization of values, yields and investment interest.

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